

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

PA-04 PRS-01 USIA-15 FEAE-00 DRC-01 /174 W

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R 091741Z AUG 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 2932

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

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DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING AUGUST 9

BEGIN SUMMARY: AS THE DOLLAR STRENGTHENED, THE POUND MOVED LOWER AND DROPPED 110 POINTS ON THURSDAY (AUGUST 8) TO CLOSE AT \$2.3655. HOWEVER, ON FRIDAY MORNING THE POUND RECOVERED AGAINST THE DOLLAR RISING TO \$2.3735 AT MID-DAY.

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THE EFFECTIVE DEVALUATION OF STERLING AGAINST 10 MAJOR

CURRENCIES REMAINED AT ABOUT 17 PERCENT THROUGHOUT THE WEEK. GOLD MOVED DOWNWARD CLOSING AT \$151.50 ON THURSDAY (AUGUST 8), DOWN \$8.50 ON LAST THURSDAY'S CLOSE. UK OFFICIAL RESERVES FELL BY \$31 MILLION DURING JULY AND STOOD AT \$6,680 MILLION AT THE END OF THE MONTH. ON THURSDAY, AUGUST 8, THE CHANCELLOR INTRODUCED A WHITE PAPER ON THE CAPITAL TRANSFER TAX AND A GREEN PAPER ON THE WEALTH TAX. THE LATEST FINANCIAL TIMES SURVEY OF BUSINESS OPINION SHOWS EXPECTATIONS OF A FURTHER INCREASE IN INFLATION AND A CONTINUED DECLINE IN PROFIT MARGINS AND RETURN ON CAPITAL. THE VOLUME OF RETAIL SALES PICKED UP IN JUNE, SHOWING AN INCREASE OF 2-1/2 PERCENT OVER MAY. NEW INSTALLMENT CREDIT ADVANCED BY RETAILERS AND FINANCE HOUSES IN JUNE WAS 202 MILLION POUNDS, THE SAME AMOUNT AS WAS ADVANCED IN MAY. BRITISH INDUSTRY INCREASED ITS BANK BORROWING MARKEDLY IN THE PERIOD BETWEEN MID-JUNE AND MID-JULY. BRITISH TERMS OF TRADE--THE RATIO OF AVERAGE EXPORT PRICES TO AVERAGE IMPORT PRICES--IMPROVED BY NEARLY 1 PERCENT IN JUNE, BUT IN VOLUME TERMS EXPORTS CONTINUED TO FALL AFTER A 1 PERCENT FALL LAST MONTH AND IMPORTS ROSE AFTER REMAINING UNCHANGED BETWEEN APRIL AND MAY. END

1. STERLING MOVED PROGRESSIVELY DOWNWARD AGAINST THE DOLLAR THIS WEEK BUT TOOK A SHARP DROP OF 110 POINTS ON THURSDAY (AUGUST 8) AS THE DOLLAR STRENGTHENED MARKEDLY ON RUMORS OF NIXON'S IMPENDING RESIGNATION. WHEN, IN FACT, THE RESIGNATION WAS ANNOUNCED, THE POUND RECOVERED TO LEVELS OF EARLIER IN THE WEEK. REACTION IN THE FOREIGN EXCHANGE MARKETS IN LONDON WAS MUTED BECAUSE THE RUMORS OF RESIGNATION HAD BEEN AROUND FOR SOMETIME AND THEN, WHEN THE EVENT FINALLY DID OCCUR, THE MARKET HAD ALREADY DISCOUNTED IT. IN TERMS OF EFFECTIVE DEVALUATION AGAINST SMITHSONIAN RATES, THE POUND WAS VIRTUALLY UNCHANGED ALL WEEK CLOSING AT 17.1 PERCENT ON THURSDAY (AUGUST 8) COMPARED TO 17.06 PERCENT A WEEK AGO. GOLD, AFTER ITS RAPID RISE LAST WEEK, FELL BACK THIS WEEK TO CLOSE AT \$151.50 ON THURSDAY (AUGUST 8), COMPARED TO \$160 A WEEK AGO.

2. UK OFFICIAL RESERVES FELL BY \$31 MILLION DURING JULY. PUBLIC SECTOR BORROWING UNDER THE EXCHANGE COVER SCHEME UNCLASSIFIED

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WAS \$10 MILLION, BRINGING THE TOTAL TO \$4,250 MILLION SINCE MARCH 1972. OIL FUNDS FLOWING INTO LONDON HAVE CONTRIBUTED TO KEEPING RESERVES HIGH IN SPITE OF A LARGE CURRENT ACCOUNT DEFICIT. RESERVES STOOD AT \$6,680 MILLION WHICH IS EQUAL TO 2,307 MILLION POUNDS IF CONVERTED AT THE PARITY RATE OF 1 POUND EQUALS \$2.89524 OR 2,799 MILLION POUNDS IF CONVERTED AT THE CLOSING MARKET RATE ON JULY 31 OF 1 POUND EQUALS \$2.3865.

3. ON THURSDAY, AUGUST 8, CHANCELLOR HEALEY INTRODUCED A WHITE PAPER ON THE CAPITAL TRANSFER TAX WHICH HE EXPECTS TO INTRODUCE IN THE AUTUMN BUDGET, AND A GREEN PAPER WHICH DISCUSSES A WEALTH TAX TO BE INTRODUCED IN THE FINANCE BILL OF 1976 AFTER DISCUSSION BY A SELECT COMMITTEE. THE PROPOSED CAPITAL TRANSFER TAX IS AIMED AT CLOSING MANY OF THE LOOPHOLES CURRENTLY EXISTING IN DEATH DUTIES BUT WILL MAKE GIFTS BETWEEN HUSBAND AND WIFE ENTIRELY TAX-FREE. THE WEALTH TAX PROPOSALS APPEAR Milder THAN HAD BEEN FEARED: THE EXEMPTION LEVEL IS SET AT ABOUT 100,000 POUNDS. PROPOSALS ON BOTH THESE TAXES WERE PROMISED IN THE MARCH BUDGET. (DETAILS OF THE NEW TAXES WILL BE RE-

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PORTED LATER.)

4. THE LATEST FT SURVEY OF BUSINESS OPINION, WHILE REINFORCING SOME OF THE GLOOMY CONCLUSIONS OF LAST WEEK'S CBI INDUSTRIAL TRENDS SURVEY, DOES CONTINUE TO SEE EXPORTS AS A BRIGHT SPOT, WITH TWO-THIRDS OF THE RESPONDENTS SAYING THEY ARE MORE OPTIMISTIC THAN THEY WERE FOUR MONTHS AGO. FOR DETAILS OF THE FT AND CBI SURVEY SEE LONDON 10023.
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5. THE INDEX OF THE VOLUME OF RETAIL SALES IN JUNE WAS 108.1 (1971100, S.A.) COMPARED TO 105.4 IN MAY. IN THE SECOND QUARTER, THE AVERAGE VOLUME OF TOTAL SALES WAS 2-1/2 PERCENT BELOW THE FIRST QUARTER LEVEL, ALTHOUGH THE DEPARTMENT OF INDUSTRY SEES THIS FALL AS BEING SLIGHTLY EXAGGERATED BY PRE-BUDGET SPENDING AT THE END OF THE FIRST QUARTER. INCREASED EARNINGS DUE TO THRESHOLD AGREEMENTS MAY HAVE CONTRIBUTED TO THE HIGHER SPENDING IN JUNE AS WELL AS THE BRINGING FORWARD OF SOME OF THE MID-YEAR "SALES".

6. NEW INSTALLMENT CREDIT ADVANCED BY RETAILERS AND FINANC HOUSES AMOUNTED TO 202 MILLION POUNDS (S.A.). THIS BROUGHT THE TOTAL FOR THE SECOND QUARTER TO 601 MILLION POUNDS, 3 PERCENT MORE THAN IN THE FIRST QUARTER BUT WELL BELOW THE AVERAGE QUARTERLY LEVEL IN 1973.

7. LATEST STATISTICS RELEASED BY THE LONDON CLEARING BANKS SHOW STERLING ADVANCES TO UK RESIDENTS ROSE BY 1,066 MILLION POUNDS IN THE FOUR WEEKS TO JULY 17, COMPARED WITH A RISE OF ONLY 18 MILLION POUNDS IN THE PREVIOUS MONTH. THIS IS ONE OF THE FIRST SIGNS THAT THE LIQUIDITY SQUEEZE EXPECTED IN INDUSTRY IS, IN FACT, NOW TAKING PLACE. THE INTEREST-BEARING ELIGIBLE LIABILITIES OF THE LONDON PARENT BANKS INCREASED TO 6.8 PERCENT OVER THE BASE LEVEL; THE PERMITTED CEILING WAS 9.5 PERCENT.

8. THE INDEX OF UK TERMS OF TRADE WAS 75.7 IN JUNE COMPARED TO 75.0 IN MAY (1970100). DESPITE THE IMPROVEMENT IN JUNE, THERE WAS A DECLINE BETWEEN THE FIRST AND SECOND QUARTERS, WHICH MORE THAN OFFSET AN IMPROVEMENT IN THE VOLUME OF EXPORTS RELATIVE TO THE VOLUME OF IMPORTS.

EXPORT PRICES ROSE 3 PERCENT IN JUNE WHILE IMPORT PRICES
ROSE 2 PERCENT. IN VOLUME TERMS EXPORTS FELL SLIGHTLY
WHILE IMPORTS ROSE BY 0.5 PERCENT.

9. THE FORWARD DISCOUNTS ON STERLING NARROWED ON TUESDAY
(AUGUST 6) BUT WIDENED TOWARDS THE END OF THE WEEK.

	8/1	8/8	CHANGE
1 MONTH	0.14-1/2	0.20-1/2	UP 0.06

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3 MONTHS	0.99	1.12-1/2	UP 0.13-1/2
6 MONTHS	3.28-1/2	3.30-1/2	UP 0.02

(ALL FIGURES IN CENTS)

10. LOCAL AUTHORITY DEPOSIT RATES MOVED DOWNWARD OVER THE
WEEK.

	8/1	8/8	CHANGE
1 MONTH	12-15/16	12-1/8	DOWN 13/16
3 MONTHS	13-7/16	12-15/16	DOWN 1/2
6 MONTHS	13-5/8	13-1/4	DOWN 3/8

11. EURODOLLAR RATES MOVED IN A MIXED, BUT GENERALLY DOWN-
WARD DIRECTION THIS WEEK.

	8/1	8/8	CHANGE
1 MONTH	13-1/8	12-3/8	DOWN 3/4
3 MONTHS	13-3/4	13	DOWN 3/4
6 MONTHS	13-7/8	13-1/8	DOWN 3/4

12. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT 11-3/4
PERCENT ON FRIDAY, AUGUST 9, 1974.

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